

## General Metals Corporation (OTCQB: GNMT.OB)

**Rating:**

Price Target:

Date:

Analyst:

**Speculative Buy**

\$0.0727

January 03, 2011

Vitalie Eremia, CFA

Share Statistics	
Symbol (OTC BB)	GNMT
Last Trade (01/03/11)	\$0.03
Low/High 52 weeks	\$0.012 - \$0.059
Average Volume (50-day)	256,189
Market Capitalization	\$7.99m
Shares Outstanding	286,402,391

Source: BigCharts.com, GNMT

### Analyst summary

General Metals Corporation is a junior mining company focusing on exploration, development and mining of gold and silver. Its sole project is the Wilson-Independence Mine, located in the Battle Mountain Mining District of northern Nevada. The company owns 100% of the Independence project under a mining lease/option agreement.

Our relative valuation suggests that General Metals should be valued at \$0.0727 per share.

### Investment Highlights

**Resource estimates are available**

General Metals announced on September 8, 2011 that it has received an independent technical report including the NI 43-101 compliant resource estimate. The report is an update of the 2009-2010 drill program consisting of 44 holes completed in January 2010. The measured and indicated gold and silver resources represented 223,200 and 3,784,000 ounces, respectively. This reflects an increase of 7.5% compared to the previously announced (in October 2009) NI 43-101 compliant resource calculation. The company believes that these results are very promising and can be upgraded to a Proven and Probable category as part of the feasibility study over the next several months.

**Preliminary Economic Assessment (PEA) commenced**

In late September 2011, General Metals announced that it has engaged Mine Development Associates of Reno, an engineering firm from Nevada, to complete the pit optimization work and review the necessary data. The company's President and CEO, Dan Forbush, noted that "After this work is finished in the next couple months we will be primed to follow the remaining steps to complete a Preliminary Economic Assessment in our push to finalize engineering to bring the Project into production." On October 27, General Metals announced that it initiated the preparation of PEA, which should be completed several months after the pit optimization.

Meanwhile, the company completed the removal of the old Independence Mill site located in the area of the planned open pit mine, in compliance with the requirements set by the Bureau of Land Management. These events represent a critical milestone for the company as the PEA is the final step towards Proven and Probable reserves, which should provide a clearer picture about the economics of the project.

### **Gold demand is likely to remain strong**

Gold price has recorded a dramatic ascent during the last decade driven in part by a healthy industrial demand from emerging economies, but more by strong investment demand for gold bars, coins and exchange-traded funds (ETF's), as investors look for safer investments during uncertain times. Given the EU turmoil and weakening global economic outlook, the gold price is expected to grow due to its safe haven status. However, volatility is likely to remain high and increased speculation might be forming a bubble.

### **Experienced management and Board of Directors**

General Metals' management has extensive experience in the mining industry, including a strong and diverse team of independent directors. Mr. Forbush, the current President, CEO and CFO, brings over 25 years of experience in administrative, financial and operations management having worked for Glamis Gold, Ltd. Director Walter A. Marting, Jr has extensive experience in the mining industry both as a senior executive with Amax Inc. for 12 years and as the CEO of a junior gold mine development and operating company. Mr. P.K Medhi, an independent director, has over 40 years experience in the mining industry and is a Certified Professional Geologist.

## Investment Risks

### **No revenues while significant funding is required**

General Metals has not registered any revenues to date and is not expected to generate revenues until it completes the next phase of mine planning, permitting and development and puts the mine into production. Currently, management estimates another 12-18 months before gold production will start. As a result, the company has accumulated equity deficit of \$10.95 million to date. While there are no sources of revenue, the company announced at the end of Q1-FY12 that significant amounts of cash are necessary to move the Independence project towards production. Although General Metals has obtained the funding for the pre-feasibility study, an additional \$1.58 million are required to execute the exploration and development program. There is no guarantee that the company will be able to raise the additional funds required to continue operations.

### **Stock dilution**

General Metals has to rely on external financing for its development activities, mainly through issuance of new shares. As a consequence, we expect significant stock dilution as the company advances the Independence project towards production.

### **Only one project**

General Metals has only one active project – the Independence project in Nevada, meaning its success is totally dependent on the project’s feasibility and transition towards production. It is worth noting that there are no proven or probable reserves, although the company recently announced that it received the NI 43-101 compliant resource estimate. The company has yet to complete various feasibility studies, obtain permits, construct the necessary facilities and infrastructure and only then begin production. This will require significant funding and time, and there is no assurance that the company will be able to complete all the stages successfully.

## Valuation

We valued General Metals using a comparative valuation method based on a multiple representing peers’ median market equity value per unit of resource they report for their projects. We selected eleven junior mining companies that in our opinion are similar to General Metals in terms of project development stage and minerals explored (gold and silver).

Since companies report various types of resources, reflecting different degrees of certainty of their existence, we adjusted the reported resources in such a way that an inferred resource is treated as worth 50% of indicated resource. We also converted silver resources into gold equivalent using a gold/silver price ratio of 53.7 (\$1592.54/oz gold to \$29.64/oz silver).

For Canadian-listed companies, we converted market cap and EV into US dollars at an exchange rate of \$0.9698 per CAD1.

Company	Market cap (USD)	EV (USD)	Normalized* gold content	Mkt cap / oz	EV/oz
Otis Gold Corp (OOO.V)	8,327,921	3,870,173	573,000	14.5	6.8
Atlanta Gold, Inc. (ATG.V)	14,190,114	16,499,243	865,251	16.4	19.1
Sutter Gold Mining Inc. (SGM.V)	21,653,936	35,984,864	452,501	47.9	79.5
Terraco Gold Corp. (TEN.V)	25,686,192	24,445,435	906,000	28.4	27.0
Silverado Gold Mines Ltd. (SLGLF.OB)	4,371,566	4,585,677	242,695	18.0	18.9
Calico Resources Corp (CKB.V)	11,353,684	9,271,779	954,500	11.9	9.7
Nevada Sunrise Gold Corporation (NEV.V)	2,760,810	3,078,534	407,919	6.8	7.5
Gryphon Gold Corp (GGN.TO)	46,979,508	47,772,209	2,110,150	22.3	22.6
Klondex Mines Ltd. (KDX.TO)	92,054,744	98,020,338	1,876,094	49.1	52.2
Rye Patch Gold Corp (RPM.V)	84,024,628	78,015,418	2,546,330	33.0	30.6
NV Gold Corporation (NVX.V)	4,967,927	3,523,230	93,500	53.1	37.7
<b>Weighted average</b>				<b>28.7</b>	<b>29.5</b>
GNMT price per share			716,900	<b>0.0718</b>	<b>0.0736</b>

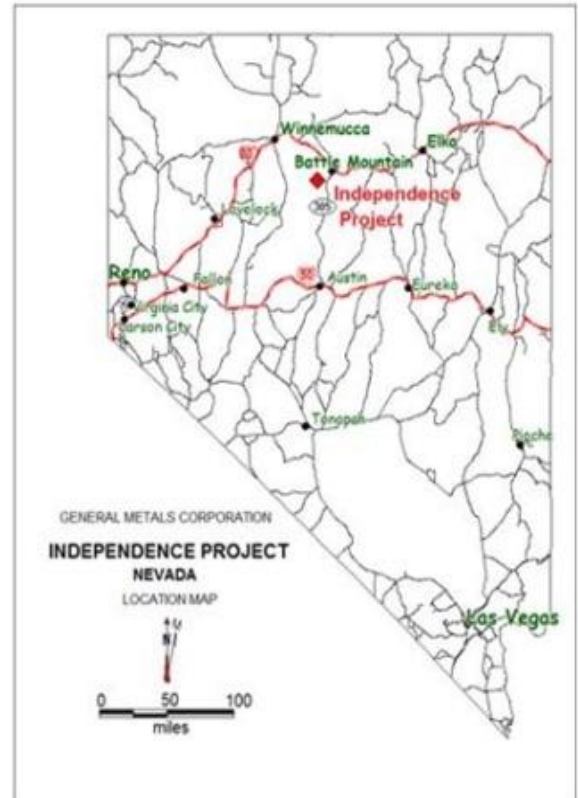
\* Normalized resource takes 100% of measured and indicated resource and 50% of inferred resource for both gold and silver; additionally, silver resource is divided by 53.7 to convert into gold equivalent.

The average of the two valuations (Market cap/oz and EV/oz) is \$0.0727 per share of General Metals' stock.

## Company profile

### Company description

General Metals is an exploration-stage mineral resource company based in Nevada, a mining friendly state and the largest producer of gold in the US. The company has only one project in the development drilling phase – the Wilson-Independence mine, situated in the Battle Mountain Gold District of northern Nevada. On September 8, 2011, the company received an NI 43-101 compliant technical report, including the results of the 2009-2010 drill program of 44 holes completed in January 2010. It is also worth noting that General Metals has initiated the preparation of the Preliminary Economic Assessment for the project in October 2011. The company expects to file an application for listing on Toronto Venture Exchange after submitting the report for approval by the British Columbia Securities Commission.



### The Independence Project

In 2006 General Metals acquired General Gold Corporation with its main asset – the Wilson-Independence Gold-Silver project, which consists of 14 whole and fractional mining claims. The property covers a zone of 240 acres within the Battle Mountain Mining District and is adjacent to the Phoenix Mine.

The mine has good access to infrastructure and skilled workforce thanks to its proximity to the town of Battle Mountain, situated 30 miles north of the property along Interstate highway 80. Historically, the property has been the site for previous mining operations, with 65,000 tons of high grade silver and gold ore extracted. Power transmission lines have recently been extended to within one mile of the project.

General Metals wholly owns the Independence project, under a mining lease/option agreement for a period of 20 years (as of October 1, 2005) with Independence Gold Silver Mines of Seattle, Washington. Under the agreement:

- The company had to carry out exploration expenses of minimum \$625,000, which was fulfilled with approximately \$2.9 million development expenditures to date since the inception.
- There is a variable (between 3% and 5%, based on price) production royalty payable on the sale of gold, silver and platinum, and 3% on the sale of other minerals. Additionally, any future production is subject to a 1% net smelter royalty obligation payable to Gold Range, LLC.

- The company can eliminate the royalties by exercising the option to purchase the property for \$3 million within 10 years of the date the lease commenced.

## Development

The drilling program to date has identified 3 main targets on the property:

- Previous drilling on the Independence Deep Target indicated a large body of mineralized material as the company completed the interpretation of the geologic modeling in the fall of 2009.
- A comprehensive drilling program between 2007 and 2010 with over 130 drill holes and approximately 8 miles of underground workings has been realized on the Shallow Target, which has identified highly anomalous to high grade mineralization.
- A highly mineralized area has been identified in 2008 north of the Canyon Fault and the Independence Shallow target – the Hill Zone, with no historic mining. The drilling identified three parallel zones of mineralization and enhances the mineralization potential in the area, which may be significantly wider than in the Independence Target.

The NI 43-101 technical report includes resource estimates based on historic drilling, the 2007-2008 exploration drilling program with 84 holes near the surface target and 44 drill holes completed during 2009-2010 in the Hill Zone area. The Measured and Indicated resources amount to 223,200 ounces of gold with an average grade of 0.014 ounces per ton (opt), and 3,784,400 ounces of silver with an average grade of 0.236 opt. Also, the report indicates promising mineralization in the Deep Skarn Deposit with Inferred resources consisting of 796,200 ounces of gold at a grade of 0.190 opt.

## Management<sup>1</sup>

*Daniel J. Forbush – President, Chief Executive Officer, CFO and Director*

Mr. Forbush is employed as President and CEO of the General Metals since December 2010, in addition to being CFO and Director since 2007. He brings over 25 years of experience in mining industry thanks to his prior positions at Glamis Gold, AMOCO and Arthur Andersen, LLP. Between 1997 and 1999, he served as CFO and Treasurer for Glamis Gold, Ltd. Mr. Forbush is a Certified Public Accountant and holds an MBA from the University of Colorado, Denver.

*Walter A. Marting, Jr. – Independent Director*

Since 1984, Mr. Marting has been managing his own junior gold mining company. Prior to this, he served as Vice President – Finance for Amax Europe, a Fortune 500 mining company, overseeing the company's European and African development activities. Mr. Marting graduated from Harvard Business School in 1975.

*Larry Bigler – Independent Director*

Mr. Bigler holds BSc degrees in economics and accounting from University of Utah and is a Certified Public Accountant. He has over 30 years experience in the mining industry, assisting junior companies in fund raising. Previously, he served as CFO and Director for Oro Nevada

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<sup>1</sup> Source: company's FY11 annual report

Resources and Treasurer for Getchell Gold, where he played a significant role for their initial public offerings.

*Shane K. Dyer, P.E., W.R.S. – Independent Director*

Mr. Dyer has over 10 years experience in the design and permitting of mining operations. Currently, he serves as Vice President of Dyer Engineering Consultants. He is a registered Water Rights Surveyor and a registered Professional Engineer, with a Masters Degree in Civil Engineering from Brigham Young University.

*P.K “Rana” Medhi – Independent Director*

Mr. Medhi holds a Master of Science degree from University of Arizona and is a Certified Professional Geologist with the American Institute of Professional Geologists. He has over 40 years of experience in the mining industry, including 28 years with Cyprus Amax Minerals. Mr. Medhi is also a Registered Mining and Engineering Geologist and a certified adjunct professor of mineral technology and geology with the colleges of Arizona. Currently, he is Chairman of the Board of Sunergy, Inc – a junior mining company with operations in West Africa.

## Market Overview

Precious metals, especially gold and silver, have been in the spotlight since the economic downturn in 2009.

Since 2003, the price of gold has increased dramatically driven by strong investment demand. According to the World Gold Council, gold demand in Q3-2011 reached an all-time high in value terms, mainly due to the investment demand which rose by 33% year-on-year, driven by renewed fears of a global economic downturn. The recent swings in the price of gold suggest that volatility is likely to remain high due to the economic anxiety in EU and US, while fearful investors will most probably maintain the investment demand for gold, at least until global economy shows solid signs of recovery, after which investment demand may see an easing.

In addition to strong investment demand, since 2010, jewelry and technology sectors in the emerging markets like China, India and Turkey also exhibited strong demand. The economic growth of emerging economies should sustain the industrial demand for gold, although the investment segment is likely to dominate in the short-to-medium term.

The price of silver, the cheaper “cousin” of gold, seems to follow closely the evolution of gold prices. According to the Silver Institute, the outlook for silver prices remains bullish for 2012, due to strong investment demand from retail and institutional investors. As the fears about a double-dip recession grow, the silver and gold markets are most likely to benefit from their safe haven characteristics.

**Gold and Silver price evolution:**



Source: <http://www.infomine.com/chartsanddata/chartbuilder.aspx?z=spot&dr=1d&g=127681>.

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